



TRUST COMPANY EXAMINATION PROCEDURES

The trust company must pay all expenses associated with the examination including salaries, travel expenses, supplies, and equipment. Most examinations are scheduled for two weeks with at least one week performed on-site.

The examination scope will include a review of management's implementation and adherence to sound fiduciary and investment policies and procedures; board and/or committee meeting minutes; service provider relationships and due diligence procedures; affiliate/subsidiary relationships; internal/external audits; account compliance with applicable state laws and governing documents; earnings performance and trend; internal controls; and operational policies and procedures. For purposes of safety and soundness examinations, South Dakota chartered trust companies are divided into two classes:

Private – Private trust companies include all trust companies that limit activities to the management of private assets, usually for the benefit of a single family lineage.

Public – The remaining will fall into the public trust company category. A public trust company resembles a traditional bank trust department or trust company with the defining factor being the solicitation and acceptance of public accounts.

Newly organized trust companies will be examined within eighteen months following issuance of the Certificate of Authority. Subsequent examinations will be scheduled according to the time frames discussed below.

Private Trust Company Examination Procedures

Private trust companies receive a limited scope review at least once every 36 months or sooner if deemed necessary by the Director, based on the volume and type of fiduciary activities. Upon completion, a composite rating of "Satisfactory", "Needs Improvement", or "Unsatisfactory" is assigned based on the following definitions:

- **Satisfactory** - Trust companies so rated are fundamentally sound. Only moderate weaknesses are present and are well within management's capabilities and willingness to correct.
- **Needs Improvement** – Trust Companies so rated exhibit some degree of supervisory concern in one or more areas. Moderate weaknesses are present and are well within the board of directors' and management's capabilities and willingness to correct.
- **Unsatisfactory** - Trust companies in this group exhibit some degree of supervisory concern in one or more areas. A combination of weaknesses exists that may range from moderate to severe.

Public Trust Company Examination Procedures

Public trust companies receive a full scope examination at least once every 24 months or sooner if deemed necessary by the Director. Upon completion, a numeric rating of 1 through 5, with 5 being the worst, is assigned for individual components as well as the composite rating. The Uniform Interagency Trust Rating System and corresponding MOECA components (Management/Situs, Operations, Earnings/Capital, Compliance, and Asset Management) are used for assigning ratings. Composite ratings are assigned based on the following definitions:

- A Trust Rating of “1” is assigned. Trust departments in this group administer fiduciary activities in accordance with sound fiduciary principles. Any weaknesses are minor and can be handled in a routine manner by management. The institution is in substantial compliance with fiduciary laws and regulations. Risk management practices are strong relative to the size and complexity of the institution's fiduciary activities.
- A Trust Rating of “2” is assigned. Trust departments so rated are fundamentally sound. Only moderate weaknesses are present and are well within management’s capabilities and willingness to correct. Fiduciary activities are conducted in substantial compliance with laws and regulations. Overall risk management practices are satisfactory relative to the institution's size and complexity. There are no material supervisory concerns.
- A Trust Rating of “3” is assigned. Trust departments in this group exhibit some degree of supervisory concern in one or more of the component rating areas. A combination of weaknesses exists that may range from moderate to severe. Management may lack the ability or willingness to effectively address weaknesses within appropriate time frames. Additionally, fiduciary activities may reveal some significant noncompliance with laws and regulations. Risk management practices may be less than satisfactory relative to the institution's size, complexity, and risk profile. While problems of relative significance may exist, they are not of such importance as to pose a threat to the trust beneficiaries generally, or to the soundness of the institution. The institution's fiduciary activities require more than normal supervision and may include formal or informal enforcement actions.
- A Trust Rating of “4” is assigned. Trust departments so rated generally exhibit unsafe and unsound practices or conditions in their fiduciary activities, resulting in unsatisfactory performance. The problems range from severe to critically deficient and may be centered around inexperienced or inattentive management, weak or dangerous operating practices, or an accumulation of unsatisfactory features of lesser importance. The weaknesses and problems are not being satisfactorily addressed or resolved by the board of directors and management. There may be significant noncompliance with laws and regulations. Risk management practices are generally unacceptable relative to the size, complexity, and risk profile of fiduciary activities. These problems pose a threat to the account beneficiaries generally and, if left unchecked, could evolve into conditions that could cause significant losses to the institution and ultimately undermine the public

confidence in the institution. Close supervisory attention is required, which means, in most cases, formal enforcement action is necessary to address the problems.

- A Trust Rating of “5” is assigned. Trust departments in this group conduct fiduciary activities in an extremely unsafe and unsound manner. Administration of fiduciary activities is critically deficient in numerous major respects, with problems resulting from incompetent or neglectful administration, flagrant and/or repeated disregard for laws and regulations, or a willful departure from sound fiduciary principles and practices. The volume and severity of problems are beyond management’s ability or willingness to control or correct. Such conditions evidence a flagrant disregard for the interests of the beneficiaries and may pose a serious threat to the soundness of the institution. Continuous close supervisory attention is warranted and may include termination of the institution's fiduciary activities.